The Modernization, Information Technology and Security Services Organization Needs to Take Further Action to Complete Its Human Capital Strategy

September 2003

Reference Number: 2003-20-209

INSPECTOR GENERAL
for TAX
ADMINISTRATION

September 22, 2003

MEMORANDUM FOR CHIEF INFORMATION OFFICER

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Assistant Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Final Audit Report - The Modernization, Information
Technology and Security Services Organization Needs to
Take Further Action to Complete Its Human Capital
Strategy (Audit # 200320030)

This report presents the results of our review of the effectiveness of the Modernization,
Information Technology and Security (MITS) Services organization's efforts in
developing its human capital strategy. The President's Management Agenda includes
five Government-wide initiatives that provide a strategy to improve the management and
performance of the Federal Government. The first of these initiatives is *Strategic
Management of Human Capital*. The President's human capital initiative has launched
a Government-wide effort to focus Federal agencies on designing workforce planning
and forecasting models to ensure that the Federal Government has the right people, at
the right time, to meet its mission.

In summary, the MITS Services organization's Management Services office has made
significant progress in developing the human capital strategy. The Management
Services office has recently developed a 5-year human capital plan that is based on
extensive analysis of current staff attributes and a vision of the MITS Services
organization's future direction. The Management Services office is also in the process
of developing its third annual workforce plan, which is the foundation of the overall MITS
Services organization human capital strategy.

While the Management Services office's human capital strategy development efforts
have been significant and produced useful analyses for decision making, the strategy
needs further development to provide a roadmap to reach its goal of having the right
people, at the right time, to meet its mission. The human capital strategy development
adequately addressed the Office of Personnel Management's *Strategic Alignment,
Leadership and Knowledge Management,* and *Results-Oriented Performance Culture*

standards for success. However, further strategic planning in the areas of *Workforce Planning and Deployment, Talent,* and *Accountability* can help ensure the effective implementation of the human capital strategy.

To complete the human capital strategy development, the Management Services office needs to work with offices throughout the MITS Services organization to clarify the desired human capital position and develop strategic plans to attain that position. To accomplish this effort, additional planning is needed that involves identifying and incorporating into the strategy human capital asset demands for the existing programs, as well as the Internal Revenue Service's (IRS) modernized organization. Additionally, hiring and retention plans need development to provide processes for attaining the desired human capital asset make-up. To assess the effectiveness of the human capital strategy, Management Services needs to implement a review process to assess the progress of strategy development, and a monitoring process to assess the effectiveness of the implementation and achievements of the resulting strategy. These actions can help foster managerial confidence in, and acceptance of, the human capital strategy to ensure its successful implementation.

<u>Management's Response</u>: Management's response was due on September 15, 2003. As of September 16, 2003, management had not responded to the draft report.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

The Modernization, Information Technology and Security Services Organization Needs to Take Further Action to Complete Its Human Capital Strategy

Table of Contents

Background

The President's Management Agenda includes five Government-wide initiatives that provide a strategy to improve the management and performance of the Federal Government. The first of these initiatives is *Strategic Management of Human Capital*. The President's human capital initiative has launched a Government-wide effort to focus Federal agencies on designing workforce planning and forecasting models to ensure that the Federal Government has the right people, at the right time, to meet its mission.

The General Accounting Office's high-risk report[1] maintains that human capital shortfalls are eroding the ability of many agencies – and threatening the ability of others – to effectively, efficiently, and economically perform their missions. Consequently, this high-risk area requires greater attention to ensure maximum Government performance and accountability for the benefit of the American public.

The Office of Personnel Management (OPM) developed a framework of outcomes that agencies can strive to successfully develop and implement to accomplish the President's Fiscal Year 2002 human capital initiative. This framework consists of six standards for success:

1. *Strategic Alignment*: Agency human capital strategy is aligned with mission, goals, and organizational objectives and integrated into its strategic plans, performance plans, and budgets.

2. *Workforce Planning and Deployment*: Agency is citizen-centered, de-layered, and mission-focused and leverages e-Government and competitive sourcing.

3. *Leadership and Knowledge Management*: Agency leaders and managers effectively manage people, ensure continuity of leadership, and sustain a learning environment that drives continuous improvement in performance.

4. *Results-Oriented Performance Culture*: Agency has a diverse, results-oriented, high-performing workforce,

---

[1] *Taking Steps to Meet Current and Emerging Human Capital Challenges* (GAO-01-965T, dated July 2001).

and has a performance management system that effectively differentiates between high and low performance and links individual/team/unit performance to organizational goals and desired results.

5. *Talent*: Agency has closed most mission-critical skills, knowledge, and competency gaps/deficiencies, and has made meaningful progress toward closing all.

6. *Accountability*: Agency human capital decisions are guided by a data-driven, results-oriented planning and accountability system.

The Modernization, Information Technology and Security (MITS) Services organization provides innovative information technology solutions and management for the Internal Revenue Service (IRS). The MITS Services organization performs these activities with approximately 8,000 employees. This workforce supports the IRS' staff of 102,000 employees and the large and diverse technology inventory of mainframe, mid-range, and individual computers; software applications; wide and local area networks; and telecommunications equipment.

Along with the IRS' reorganization in 1998, the MITS Services organization has undergone several changes to its structure. Specifically, the MITS Services:

- Reorganized to a shared services structure by consolidating the IRS' computer technology resources under the Chief Information Officer (CIO).

- Chartered two Functional Automation Support Teams to identify and determine which employees to consolidate as part of this reorganization.

- Started an initiative (known as the Re-Tune) to reorganize the MITS Services organization based on end-user needs.

Currently, the MITS Services organization's Management Services office is developing a human capital strategy. The Management Services office has used the OPM framework as a guide during its strategy development and intends for the strategy to be part of the overall IRS human capital strategy.

To assess the adequacy of the MITS Services organization's human capital strategy development, we reviewed available documentation and interviewed IRS executives, managers, and analysts located at the MITS Services organization office in New Carrollton, Maryland. We performed this audit from May through July 2003 in accordance with *Government Auditing Standards*. Detailed information on our objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Human Capital Strategy Development Efforts Have Been Significant

The MITS Services organization's Management Services office has made significant progress in developing its human capital strategy. The Management Services office has recently developed a 5-year human capital plan that is based on extensive analysis of current staff attributes and a vision of the MITS Services organization's future direction. The Management Services office is also in the process of developing its third annual workforce plan, which is the foundation of the overall MITS Services organization human capital strategy. The workforce plan focuses on identifying skills and competency gaps and workforce needs, and recommending actions to address these gaps and needs. The Management Services office is also in the process of conducting an extensive skills assessment that involves a comprehensive survey of the entire MITS Services organization workforce.

Other MITS Services organization human capital planning efforts have included:

- Incorporating human capital strategies as part of the annual MITS Services Strategic Plan.

- Conducting a scan of both internal and external factors pertaining to political, demographic, economic, social, technological, and employment trends and forecasts.

- Analyzing current human capital workforce characteristics, including age and retirement data.

- Analyzing workforce data and identifying potential gaps in workforce competencies.

- Forming a Modernization Training Team to coordinate with the modernization projects in identifying human capital training issues related to those projects.

While the MITS Services organization's human capital strategy development efforts have been significant and produced useful analyses for decision making, the strategy needs further development to provide a roadmap for the MITS Services organization to reach its goal of having the right people, at the right time, to meet its mission.

The Management Services office's human capital strategy development adequately addressed the OPM's *Strategic Alignment* standard for success. The human capital strategy is generally aligned with organizational goals and integrated into the MITS Services organization's strategic plan. It has addressed the *Leadership and Knowledge Management* standard with a plan that includes curricula for training and leadership development. The *Results-Oriented Performance Culture* standard is also accomplished by relating MITS Services organization executive and manager performance plans to the organization's strategy and programs.

However, further development of plans to meet the success standards of *Workforce Planning and Deployment, Talent,* and *Accountability* can help ensure the effective implementation of the human capital strategy. This development is needed to help clarify the desired human capital position and the detailed strategic plans to attain that position. These actions can help foster managerial confidence in, and acceptance of, the human capital strategy to ensure its successful implementation.

Workforce Planning and Deployment Efforts Need to Fully Incorporate Human Capital Demand Considerations

Identifying human capital demand is a key factor in effective workforce planning. The MITS Services organization's human capital demand may be characterized as human resources necessary for existing information systems, future modernization projects, and support functions. These resource attributes may include the number, location, and schedule of the resources.

The Management Services office has undertaken significant efforts to obtain supply data, including the current initiative

to identify skills and competencies for the entire MITS Services organization. Although the Management Services office identified the importance of supply and demand data to the overall strategy, it did not have a mechanism in place to effectively capture demand data.

The Management Services office's human capital strategy assigned responsibility for identifying resource demands to its Embedded Human Resources branch. This branch attempted to obtain information regarding human capital demand from the MITS Services organization's Information Technology Services and Business Systems Modernization offices. Although this branch performed some research and made information inquiries, demand information was not obtained and sized for inclusion as part of the MITS Services human capital strategy.

Demand data from the Information Technology Services and Business Systems Modernization offices provide the vision of the desired position for the MITS Services organization's human capital assets. These data, coupled with forecasts of available budget resources, comprise the roadmap, or strategy, for a human capital plan.

Without effective demand data, the MITS Services organization is not able to adequately plan the number, location, and schedule of human capital assets for its existing information systems, future modernization projects, and support functions. The MITS Services organization also risks spending considerable time and resources on a strategy that cannot be effectively implemented due to an absence of detailed demand data that would provide the direction for the assignment of human capital assets.

Recommendation

To ensure that the MITS Services organization has sufficient data with which to determine human capital demands, the CIO needs to:

1. Support the Director, Management Services, to work with offices throughout the MITS Services organization to identify the human capital demand. The demand includes information to adequately plan the number,

location, and assignment schedule of human capital assets for:

- Existing information systems (from owners in the Information Technology Services office).

- Future MITS Services organization operations (from owners in the Business Systems Modernization office).

<u>Management's Response</u>: Management's response was due on September 15, 2003. As of September 16, 2003, management had not responded to the draft report.

Detailed Hiring and Retention Plans Are Necessary to Fully Develop the Success Factor for Talent

The *Talent* standard for success recommends establishing detailed hiring and retention plans that support the overall human capital strategy. Further, an organization should prioritize hiring and retention plans to ensure the most critical needs are met first, especially when budget limitations exist.

The Management Services office has not developed detailed hiring and retention plans as part of the development of the MITS Services organization human capital strategy – having the right people, at the right time, to meet its mission. Although the Management Services office has considered options for hiring, decisions have not been made about:

- Providing different types of skills for the MITS Services organization, i.e., hire fully qualified staff, employ less experienced but trainable staff, or recruit future talent through an internship program.

- Developing priorities to specify hiring staff with particular types of skills, the locations for their placement, and the timing of their assignments.

- Linking the MITS Services organization's budget with hiring plans that consider staffing forecasts, attrition, and organizational changes.

Similarly, the human capital strategy does not include staff retention considerations. Incentives for continued employment to retain MITS Services organization staff (salary, benefits, job enrichment, bonus potential, advancement, etc.) have not been detailed. The

Management Services office has not compiled these incentives into a plan to maintain the MITS Services organization talent pool.

Because of budget restrictions that include hiring freezes and forecasts of stagnant and/or decreasing budget appropriations, the Management Services office focused its strategy development efforts in areas other than staff hiring and retention. Management's view was that since funding was not available for hiring, it did not need to consider hiring and retention plans in the short term.

A detailed hiring plan is imperative to allow for quick action when recruiting funds become available. In addition, detailed retention plans are even more critical during periods of hiring freezes to ensure existing staff are able to maintain required service levels. Without detailed, prioritized strategies, the MITS Services organization risks inefficient and ineffective use of limited budget funds on recruiting and retention. In addition, successful implementation of the human capital strategy and realization of human capital goals may be jeopardized without these comprehensive strategies.

Recommendation

To ensure that the MITS Services organization has adequate staffing to meet its needs, the CIO should:

2. Charge the Director, Management Services, to develop detailed hiring and retention plans. These plans should include staff position "return on investment" as a consideration for determining the type of talent to recruit or retain and should be incorporated into the MITS Services organization's human capital strategy with relevant links to its budget.

    - Recruiting: Prioritize the most critical skill needs and position locations with project development, deployment, implementation, and operation schedules. Proceed with hiring specific skills based on decisions for recruiting the subject position with either fully trained or trainable talent or through an internship position.

- Retention: Identify and compile retention incentives into a plan to maintain the MITS Services organization talent pool.

Assessing the Accountability of Human Capital Strategy Development Can Help Promote Implementation Success

The *Accountability* standard for success encourages oversight of the human capital strategy development process and monitoring of the strategy's implementation to determine its effectiveness at meeting human capital needs. This success factor recommends conducting periodic assessments of the data used in the human capital strategy development and adjusting the strategy as necessary based on these assessments. The factor also recommends periodically reviewing the strategy to ensure it is effectively meeting human capital goals.

The Management Services office does not have a process to review the human capital strategy development. In addition, no system exists for monitoring the effectiveness of the resulting implementation and achievements of the human capital strategy within the MITS Services organization. The Management Services office's efforts to date have focused on strategy development rather than setting up accountability controls.

Without this oversight, the MITS Services organization risks developing an ineffective human capital strategy, the implementation of which does not result in meeting its human capital needs. Such accountability is also necessary to ensure the MITS Services organization human capital strategy is congruent with the OPM guidelines, which also serve as the guidance for developing and implementing the overall IRS human capital strategy.

Recommendation

To ensure that proper accountability is developed as part of the MITS Services organization human capital plan, the CIO should:

3. Charge the Director, Management Services, to develop and implement processes for:

- Reviewing the development of the human capital strategy.

- Monitoring and assessing the effectiveness of the implementation and achievements of the resulting human capital strategy. The monitoring process should include assessments of the human capital assets' ability to meet desired performance measures.

Detailed Objective, Scope, and Methodology

Our overall objective was to determine the effectiveness of the Modernization, Information Technology and Security (MITS) Services organization's efforts in developing its human capital strategy. To accomplish our objective, we performed the following activities:

I. Determined the status of the MITS Services organization's human capital strategy development efforts.

    A. Reviewed the human capital elements of the MITS Services organization's Fiscal Year 2003–2004 strategy and program plan.

    B. Reviewed the Management Services office's human capital strategy documents, including the human capital 5-year strategy and annual workforce plans.

    C. Reviewed documentation related to the Management Services office's human capital strategy development efforts, including mission, organizational structure, and human capital strategy development methodology.

    D. Consulted with the MITS Services organization and other Internal Revenue Service personnel regarding their human capital strategy development direction and efforts.

II. Evaluated the Management Services office's progress toward meeting the Office of Personnel Management's Human Capital Standards for Success.

    A. Determined how the Management Services office developed the human capital strategy and how it included the MITS Services organization mission in the human capital plan.

    B. Determined the extent of workforce planning and deployment analysis by the Management Services office.

    C. Determined how the MITS Services organization:

        1. Identified leadership competencies, implemented change management, assessed whether leaders had integrity and inspired employee commitment, shared knowledge across the organization, and provided continuous learning and improvement.

        2. Provided effective performance management and employee/management relations.

        3. Conducted workforce analyses and competed for talent by maintaining a quality workplace.

        4. Documented and analyzed human capital strategy development and implementation processes, measures, and results.

Major Contributors to This Report

Margaret E. Begg, Assistant Inspector General for Audit (Information Systems Programs)
Scott A. Macfarlane, Director
Edward A. Neuwirth, Audit Manager
Cari Fogle, Senior Auditor
Bret Hunter, Senior Auditor
Bruce Polidori, Senior Auditor
Glen Rhoades, Senior Auditor

Report Distribution List

Commissioner N:C
Deputy Commissioner for Operations Support N:OS
Associate Commissioner, Business Systems Modernization OS:CIO:B
Chief, Information Technology Services OS:CIO:I
Director, Management Services Division OS:CIO:M
Acting Director, Portfolio Management Division OS:CIO:R:PM
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Director, Office of Legislative Affairs CL:LA
Office of Management Controls N:CFO:AR:M
Audit Liaison:
      Chief, Information Technology Services OS:CIO:I